Internal Audit of Year-End Processes:

Accounts Payable

Audit Program

Description

The audit steps detailed below are designed to review the processes that are used by a department for establishing year-end payables. The audit techniques are not substantive tests; however, they may be expanded to perform tests of transactions and balances for determining that year-end payables are accurate for your department.

Accounts payable are established for goods and services received on or before September 30, but for which payment was not made. The payables are established either through an "inventorying" process, an estimation methodology, or automatically through the system. Other liabilities (e.g., contract retainages, unearned receipts, and miscellaneous liabilities) are also adjusted during the year-end closing process.

The audit steps are designed as a starting point for conducting a review of payables at the department level. Each department will be different both in the type and amount of payables it has each year. As such, an understanding must be gained of each department's operations and policies regarding payables. Departmental policies should closely follow what has been prescribed by DMB.

Some important areas to consider are:

- Recording of estimated versus actual accounts payable
- The proper fiscal year cut-off of recording the related expenditures
- All accounts payable must be recorded; a lack of spending authority does not prevent the need for recording a liability.

Additional information on these items, and others, can be found in the Year-end Closing Guide.

Critical dates include:

- September 30th cut-off date - all goods and services received by this date need to be identified and recorded as payables whether it is via ADPICS through the posting of receiving reports or directly into R*STARS.
- The last date to process a prior-year ADPICS/R*STARS invoice to record an accounts payable is in mid-November. Please consult

Chapter 2 of the YEC Guide for the exact date as it changes from year-to-year.

Objectives
1. Determine if accounts payable and the related expenditures are recorded at the proper amount.
2. Determine if accounts payable and the related expenditures are charged to the proper fiscal year.
3. Determine if accounts payable are properly classified as to type (i.e., they should be recorded as "due to other funds" or "due to local units") and period (i.e., current vs. non-current).
4. Determine the year-end accrual methodology for estimating liabilities is acceptable.

How to Identify Population of Transactions
The majority of accounts payable items will come into R*STARS from ADPICS where they were originated through the normal procurement process. Through this process an accounts payable is established which hits G/L 1215 (Accounts Payable).

As with the accounts receivable, accounts payable may also be established in R*STARS to take advantage of the document financial table document tracking function. As a result G/L 1216 (Accounts Payable - DF) should also be isolated.

There are also numerous G/L's that can be isolated to gather information on the various "Due to …" transactions, including due to 'local units of government,' 'other funds,' component units,' etc.

Technical References
- ***Administrative Guide to State Government*** - procedure 1210.27
- OFM Year-End Closing Guide, Chapter 14
- GASB Codification 1600

Audit Steps
1. Determine that the department has documented procedures for establishing all categories of its accounts payable (and other liabilities).

2. Determine which programs or processes normally have payables and determine that there are not other programs that should be establishing year-end payables.

3. Review the reasonableness of the methodology for establishing payables and determine if there are procedures in place (for financial management

staff) to ensure that the liability and related expenditure are properly documented and recorded at the proper amount, in the proper fiscal year and the correct accounting classifications.

4. If an estimation methodology is used, consider performing an analytical review of prior year amounts for the program (estimate to actual) and/or a review of new year payments (related to the old year) to determine the reasonableness of the estimate.